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India

Dairy and Products

Annual

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Report Highlights:
Post forecasts MY 2008/09 milk production three percent higher than MY 2007/08 at 102 million tons, due to growing demand for milk and milk products. The export ban on certain milk and milk products was lifted by the government on October 1, 2007, after continued pressure from milk powder exporters. Sanitary restrictions imposed on the importation of dairy products effectively prohibit dairy imports from the United States.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I: SITUATION AND OUTLOOK

Executive Summary

In India, small or marginal farmers and landless laborers, 17 percent of which are grouped into cooperatives at the village level, account for most milk production in India. Milk production in MY 2008/09 is forecast to increase by three percent to 102 million tons on continuous strong demand for dairy products from the domestic market. Lucrative international prices for processed milk products have driven export potential for various dairy products. India remained a net exporter of dairy products during 2005/06, with more than 80 percent of exports comprising various milk powders. However, the growing exports impacted domestic prices adversely, forcing the government to impose an export ban on certain milk and milk products from February 9, 2007 until September 30, 2007 to assure domestic supply in the lean season.

Production

Indian milk production has been increasing at a growth rate of more than three percent for the past several years, with the MY 2008/09 milk production forecast at 102 million tons. Milk production estimates for MY 2007/08 and 2006/07 are revised to 99 million tons and 96 million tons to reflect Basic Animal Husbandry Statistics, compiled by the Department of Animal Husbandry, Dairying and Fisheries (DADF). The production of non-fat dry milk and butter in 2008 is forecast at 345,000 tons and 3.6 million tons respectively. Growing demand for milk and milk products and high farm gate prices are the main drivers for increased production. The National Sample Survey Data for the past several years clearly indicates that with the rise in income levels, the demand for livestock products has been rising. India has thus emerged as the world’s largest producer of bovine milk. Buffaloes contribute more than 57 percent to total milk production and are increasingly preferred as dairy animals due to their many uses compared to cows. Buffaloes can be used for milk production, quality meat, and also as a work animal for small and marginal farmers. Additionally, fat content largely determines milk prices and buffalo milk is high in fat content. For these reasons, the growth rate for buffalo population has seen a growing trend compared to the cow population in the past several years.

Dairy is an important direct and supplementary source of income for around 70 million small and marginal farmers and landless laborers in India. The Indian milk production system is thus unique and mainly utilizes low cost agricultural byproducts (as sources of nutrition) and traditional technologies. The government of India (GOI) has therefore always placed emphasis on dairy development activities in the country. The Operation Flood program was launched in the 1970s by the GOI and targeted to strengthen the dairy cooperative structure for continued growth of the Indian dairy industry. The program has so far covered more than 100,000 village level milk cooperative societies with more than 12 million farmers. Dairy cooperatives (registered under dairy cooperative laws) cover around 15 percent of milk animal owing households and procure around nine percent of milk production. According to the National Dairy Development Board (NDDB), more than 90 percent of India’s milk production is sourced from 14 states (with the top states being Uttar Pradesh, Punjab, Rajasthan, Andhra Pradesh and Maharashtra) which account for 80 percent of the country’s villages.

Despite substantial milk production growth, the Indian dairy sector still needs to overcome challenges like low productivity of dairy animals, complete coverage of milk quality and hygiene control systems, and an enhanced network of cold chain infrastructure from the production area to the consumer.

Production Developments and Policy

Currently, the microbiological quality of milk in India has much room for improvement due to lack of awareness among rural producers and lack of cold chain infrastructure. However, the government realizes the significance of establishing infrastructure for ensuring quality and clean milk production. With the basic aim of ensuring quality and clean milk production systems, the DADF had introduced a new centrally sponsored scheme "Strengthening infrastructure for quality and clean milk production" during the tenth five year plan (2002-2007) with an outlay of around $7 million. The scheme was implemented on a 100 percent grant in aid basis to state governments and union territories for training of farmers and strengthening of existing laboratories etc. Assistance to the cooperatives and Dairy/Poultry venture capital funds were some of the other schemes launched by the department in 1999-2000 and during the tenth five year plan with the aims of strengthening the struggling dairy cooperative units and providing assistance for developing the cold chain infrastructure.

The GOI released the Milk and Milk Products Order (MMPO) 1992 under the provisions of the Essential Commodity Act, 1955, following de-licensing of the dairy sector in 1991. The full text details of the MMPO can be accessed at: http://www.dahd.nic.in/order/mmpo.doc . According to the MMPO, any person or dairy plant handling more than 10,000 liters of milk or 500 MT of milk solids per year needs to be registered with the registering authority appointed by the central government. The MMPO is aimed at ensuring the maintenance and supply of liquid milk of desired quality in the best interest of the general public. The rules for production, processing and distribution of milk and milk products are also contained in the MMPO. Several amendments were made to the MMPO by the GOI and these are notified in the official gazette of India from time to time. Some of the major amendments contained in the MMPO are the following: restrictions on the establishment of new capacity, removal of the provisions of milk shed area limits, and broadening of the scope of registrations under MMPO to include sanitary, hygienic conditions, quality and food safety.

The GOI has designated the National Productivity Council (NPC) and the Export Inspection council (EIC) as quality auditors for conducting periodic inspection of units registered under the MMPO to ensure compliance with sanitary, hygienic and food safety measures.

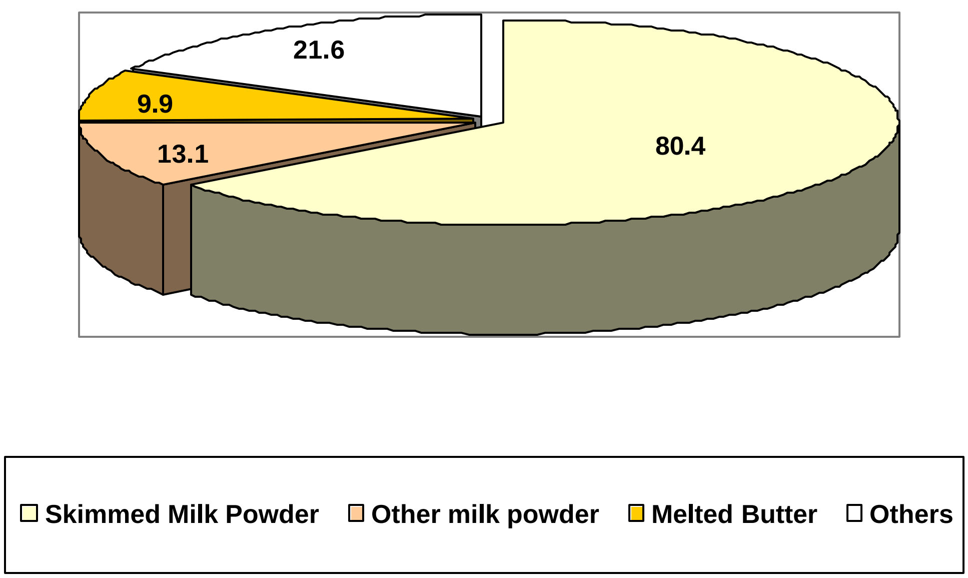
Consumption

India is not only the world's largest producer of milk but also one of the largest consumers with almost negligible exports of milk products. The per capita consumption of milk during 2006/07 was 245 grams per day, still below the world's average of 265 grams per day. Hence, there is more scope for further increasing per capita consumption. Industry sources confirm that a milk producer retains around 34 percent of his milk production and the rest, 66 percent, is sold. Out of this 66 percent of the milk sold by the producers, around 16 percent is procured by cooperatives and the remaining 50 percent is procured by the unorganized sector. The unorganized sector alone processes around 30 percent of total milk production, compared to only 6 percent by the organized sector. The main processed dairy products include packaged liquid milk, cheese, ethnic sweets, yogurt, ice creams, butter, ghee (clarified butter) and milk powder. The share of the unorganized dairy sector in milk processing is still substantial since they are able to operate without huge initial investments, as their daily milk procurement and sales operations are small in scale. Additionally, consumers in India prefer to buy fresh milk from milk venders because of their belief that pasteurized milk kills the nutritional value of milk. This preference for fresh products also favors increased purchase of processed dairy products like fresh cheese, yogurt etc. from the unorganized players, who manage to sell whatever they produce on a daily basis due to lack of sufficient storage infrastructure. Nevertheless, with rising incomes and improving lifestyles, the demand for branded products has started gaining momentum. The entry of various renowned Indian business players in organized food retail is also expected to boost demand for branded dairy products. Big Indian dairy brands like Amul have already started expansion work on their exclusive sales outlets in order to gain direct sale margins and to offer better and customized services to their customers.

Trade

During MY 2005/06, India was a net exporter of dairy products. According to dairy product export statistics of the Agricultural and Processed Food Products Export Development Authority (APEDA); India exported around 50,000 tons of various categories of milk powders. Milk powder exports constituted around 80 percent of total dairy exports in value terms, followed by Ghee, milk cream, and other processed dairy products. Milk powder exports in MY 2005/06 nearly doubled as compared to the previous year. High international prices due to drought in Australia, removal of the export subsidy on skimmed milk powder in Europe, increasing milk demand in countries like China, and rising global dairy feed costs due to high corn and soymeal prices encouraged exports. However, increased exports led to a surge in Indian domestic milk powder prices thus leading the government to impose an export ban on certain milk and milk products including milk powder in February 2007. The ban was imposed until September 30, 2007, primarily to cover the lean milk production season (April to August). To read more on the export ban regulation of the GOI, please see GAIN report IN 7013, dated February 23, 2007. The export ban decision was strongly opposed by the leading dairy cooperatives and other private exporters, as the ban didn't allow them to meet their trade commitments and further reap profits when international prices were lucrative for exports. The milk powder export prohibition was finally lifted with effect from October 1, 2007.

India Dairy Exports - 2005-06 ($million)



Source: APEDA, Ministry of Commerce, GOI.

Trade Policy

Imports of milk and cream, milk food for babies, whole milk, condensed milk, yogurt, buttermilk, whey, dairy spreads, ghee, cheese (fresh/grated, powdered, processed, blue veined) are permitted without any quantitative restrictions. However, in most cases import permits are required. The detailed procedures for obtaining a sanitary permit are discussed in GAIN Report IN7094, dated Oct 1, 2007. Skimmed milk, milk food for babies, whole milk, milk for babies, and condensed milk should also adhere to standards set by the Bureau of Indian Standards. The current GOI sanitary conditions effectively block imports of dairy products from the U.S. and many other countries.

The Ministry of Health and Family Welfare (MOHFW) regulates both domestic production and importation of milk and milk products, through the standards laid out in Prevention of Food Adulteration Act and Rules (http://mohfw.nic.in/pfa%20acts%20and%20rules.pdf). However, with the new food safety and standards Act signed by the president in 2006 (http://mofpi.nic.in/fsnstds.pdf), a consolidated food law is expected to be implemented by the end of this year or soon thereafter. In an effort to harmonize the domestic standards for milk and milk products with codex standards, the Ministry of Heath and family Welfare has released a number of GOI gazette notifications. For details see:

1) GSR 356(E) dated June 7,2005 (www.mohfw.nic.in/GSR356.pdf).
2) GSR 532(E) dated December 6, 2005 (www.mohfw.nic.in/706.pdf)
3) GSR 131(E), dated March 3, 2006 (www.mohfw.nic.in/131.pdf)
4) GSR 532 (E), dated September 5, 2006 (www.mohfw.nic.in/Noti%20352.pdf)

Notifications given below are specific to infant foods –

5) Standards for infant foods, GSR No. 1 (E), dated January 1,2007 (http://www.mohfw.nic.in/Corrigendum%20to%20398.pdf)
6) Levels of mono and triglycerides in infant foods, GSR No. 458 (E), dated 2 July, 2007 (http://www.mohfw.nic.in/Noti%20458.pdf)

Tariff Structure for various dairy products

HS CODE	ITEM DESCRIPTION	BASIC	CVD	SPL CVD	TOTAL DUTY WITH 2+1% ec	IMPORT POLICY
04011000 - 04013000	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	30	0	0	30.9	Free
04021010	Milk and cream, concentrated or containing added sugar or other sweetening matter	60	0*	4	68.272	Free
04021020 - 04021090	Milk and cream, concentrated or containing added sugar or other sweetening matter	60	0	4	68.272	Free
04022100	Milk and cream, not containing added sugar or other sweetening matter	60	0	4	68.272	Free
040229	Other: whole milk, milk for babies, other	30	0	4	36.136	Free
04029110	Condensed milk	30	16.3	4	59.084	Free
04029190	Other	30	0	4	36.136	Free
040299	Other: whole milk, condensed milk	30	0	4	36.136	Free
0403	Buttermilk, curdled milk and cream, yogurt, kephir & other fermented or acidified milk & cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruits, nuts or coco	30	0	0	30.9	Free
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or include	30	0	4	36.136	Free
0405**	Butter and other fats and oils derived from milk; dairy spreads	40	0	4	46.848	Free
04061000***	Fresh (unripened or uncured) cheese, including whey cheese & curd	30	0	Ntfn 20/06	--	Free
04062000	Grated or powdered cheese of all kinds	30	0	4	36.136	Free
04063000	Processed cheese not grated or powdered	30	0	4	36.136	Free
04064000	Blue-veined cheese and other cheese containing veins produced by Pencillium roqueforti	30	0	4	36.136	Free
04069000	Other cheese	40	0	4	46.848	Free
	Ntfn 21 - Cheese/dated 03-01-2002 All goods falling under above	30	0	4	36.136	

Note: Effective June 2000, a Tariff Rate Quota was established for Skimmed Milk Powder, under which imports of up to 10,000 tons are allowed at a 15 percent basic tariff, and quantities above that level at a basic tariff of 60 percent.

* - Education Cess of 2% on customs exempted on 0402 10, 0402 2100, 0405 1000 & 0405 90

** - Education Cess of 2% exempted on dairy spread with a milk fat content at least 75% but less than 80% by weight, falling under tariff item 0405 20 00

*** - Ntfn 20/06 - Nil standard rate on this product as per the notification

SECTION II: STATISTICAL TABLES

Table 1: Commodity, Dairy, Milk, Fluid, PSD

PSD Table									
Country	**India**								
Commodity	**Dairy, Milk, Fluid**						(1000 HEAD) (1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		04/2006	04/2006		04/2007	04/2007		04/2008	04/2008
Cows In Milk	38000	38000	38000	38500	38500	38000	0	0	38500
Cows Milk Production	38750	39775	41000	40050	41150	42140	0	0	42890
Other Milk Production	54925	54925	55200	56850	56850	56960	0	0	59210
Total Production	93675	94700	96200	96900	98000	99100	0	0	102100
Other Imports	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	**93675**	**94700**	**96200**	**96900**	**98000**	**99100**	**0**	**0**	**102100**
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	55	55	4	60	60	5	0	0	5
Fluid Use Dom. Consum.	38840	39865	39920	41875	42975	41130	0	0	42680
Factory Use Consum.	54780	54780	56276	54965	54965	57965	0	0	59415
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	93620	94645	96196	96840	97940	99095	0	0	102095
Total Distribution	**93675**	**94700**	**96200**	**96900**	**98000**	**99100**	**0**	**0**	**102100**
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Table 2: Commodity, Dairy, Milk, Nonfat Dry, PSD

PSD Table										
Country	India									
Commodity	Dairy, Milk, Nonfat Dry						(1000 MT)			
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		04/2006	04/2006		04/2007	04/2007		04/2008	04/2008	MM/YYYY
Beginning Stocks	5	5	5	5	5	5	5	5	15	(1000 MT)
Production	295	295	295	340	340	320	0	0	345	(1000 MT)
Other Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	**300**	**300**	**300**	**345**	**345**	**325**	**5**	**5**	**360**	(1000 MT)
Other Exports	55	55	50	60	60	60	0	0	60	(1000 MT)
Total Exports	55	55	50	60	60	60	5	5	60	(1000 MT)
Human Dom. Consumption	240	240	245	280	280	250	0	0	285	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	240	240	245	280	280	250	0	0	285	(1000 MT)
Total Use	295	295	295	340	340	310	5	5	345	(1000 MT)
Ending Stocks	5	5	5	5	5	15	0	0	15	(1000 MT)
Total Distribution	**300**	**300**	**300**	**345**	**345**	**325**	**5**	**5**	**360**	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

Table 3: Commodity, Dairy, Butter, PSD

PSD Table									
Country	**India**								
Commodity	**Dairy, Butter**						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		04/2006	04/2006		04/2007	04/2007		04/2008	04/2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	3050	3050	3050	3425	3425	3360	0	0	3610
Other Imports	5	5	10	5	5	10	0	0	15
Total Imports	5	5	10	5	5	10	0	0	15
Total Supply	**3055**	**3055**	**3060**	**3430**	**3430**	**3370**	**0**	**0**	**3625**
Other Exports	10	10	5	10	10	10	0	0	10
Total Exports	10	10	5	10	10	10	0	0	10
Domestic Consumption	3045	3045	3055	3420	3420	3360	0	0	3615
Total Use	3055	3055	3060	3430	3430	3370	0	0	3625
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	**3055**	**3055**	**3060**	**3430**	**3430**	**3370**	**0**	**0**	**3625**
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0